

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the Nova – School of Business and Economics.

## **WORK PROJECT REPORT**

### **A STUDY ON HOW TO IMPLEMENT BEHAVIOURAL ECONOMICS IN THE BUSINESS WORLD**

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## **A STUDY ON HOW TO IMPLEMENT BEHAVIOURAL ECONOMICS IN THE BUSINESS WORLD**

### **ABSTRACT**

The aim of this report is to provide an overview of the current application of Behavioural Economics, through a clear identification of the challenges as well as the commercial and societal opportunities that it presents. While governments were amongst the first to successfully introduce Behavioural Economics, the adoption into the private sector has been slow. Drawing from some success stories, the analysis provides a plan for the potential implementation of a Behavioural Economics Unit within the Commonwealth Bank of Australia. The paper concludes with an academic discussion of the potential application of Behavioural Economics to the marketing practices of a financial organisation.

*Keywords: Behavioural Economics, Opportunity, Financial Sector, Marketing*

## TABLE OF CONTENTS

<b>ABSTRACT.....</b>	<b>2</b>
<b>TABLE OF CONTENTS .....</b>	<b>3</b>
<b>1. BRIEF CONTEXT .....</b>	<b>4</b>
1.1 CLIENT.....	4
1.2 MARKET OVERVIEW .....	5
1.3 CURRENT CLIENT SITUATION .....	6
1.4 THE BUSINESS PROJECT CHALLENGE .....	7
<b>2. REFLECTION ON THE WORK DONE AND INDIVIDUAL CONTRIBUTION .....</b>	<b>8</b>
2.1 PROBLEM DEFINITION.....	8
2.2 METHODOLOGY .....	8
2.2.1 HYPOTHESIS .....	8
2.2.2 METHODOLOGY .....	9
2.2.3 ANALYSIS .....	10
2.3 RECOMMENDATIONS TO THE COMPANY .....	14
2.4 CONCERNS.....	18
2.5 INDIVIDUAL CONTRIBUTION .....	19
<b>3. ACADEMIC DISCUSSION .....</b>	<b>22</b>
3.1 POSSIBLE LINKS WITH MSC FIELD (MANAGEMENT) .....	22
3.2 RELEVANT THEORIES AND EMPIRICAL STUDIES.....	22
3.3 IMPLICATIONS FOR THEORY AND FUTURE RESEARCH.....	26
<b>4. PERSONAL REFLECTION.....</b>	<b>26</b>
4.1 PERSONAL EXPERIENCE .....	26
4.1.1 KEY STRENGTHS AND WEAKNESSES .....	27
4.1.2 PLAN TO DEVELOP OF YOUR AREAS OF IMPROVEMENT.....	27
4.2 BENEFIT OF HINDSIGHT .....	27
<b>5. REFERENCES .....</b>	<b>29</b>
<b>6. APPENDIX .....</b>	<b>33</b>

## 1. BRIEF CONTEXT

### 1.1 CLIENT

The Commonwealth Bank of Australia (CBA) is one of the largest Australian financial providers counting over 52,000 employees, 15 million customers, and 800,000 shareholders<sup>1</sup>.

The CBA Group is also one of the largest traded companies on the Australia Securities Exchange (ASX) and it is listed on the Morgan Stanley Capital Global Index<sup>2</sup>.

CBA offers a diversified portfolio of financial products and services that includes retail and business banking, funds management, superannuation, insurance, investment and share-broking. The Group's vision "to excel at securing and enhancing the financial wellbeing of people, businesses and communities"<sup>3</sup> explains CBA's customer-centric strategy and diversified business mix, both designed to serve all key customer segments at a personal, corporate and institutional level.

By focusing on a "values-based culture built around integrity, collaboration, excellence, accountability and service"<sup>4</sup>, CBA's Chief Executive Officer, Ian Narev, together with the Chairman, David Turner, and the Board of Directors seek to maintain a firm balance between CBA's customer-centric approach and its conservative business settings.

A key element of this approach is CBA's brand, which is highly recognised in the Australian financial services sector due to its strong values and heritage. Early this year, CBA launched "*CommBank Can. When we believe, we can*", a new promising tagline that recalls the Group's vision and strengthens the connection within the CBA community.

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<sup>1</sup> Commonwealth Bank of Australia. 2015. Annual Report 2015. CEO's Statement. Commonwealth Bank of Australia. <http://www.republicast.com/publications/cbaar2015/> [Retrieved April 12, 2016]

<sup>2</sup> Commonwealth Bank of Australia. 2015. Company Overview. Commonwealth Bank of Australia. <https://www.commbank.com.au/about-us/our-company/overview.html> [Retrieved April 12, 2016]

<sup>3</sup> Commonwealth Bank of Australia. 2015. Annual Report 2015. CEO's Statement. Commonwealth Bank of Australia. <http://www.republicast.com/publications/cbaar2015/> [Retrieved April 12, 2016]

<sup>4</sup> Commonwealth Bank of Australia. 2015. Annual Report 2015. Chairman's Statement. Commonwealth Bank of Australia. <http://www.republicast.com/publications/cbaar2015/> [Retrieved April 12, 2016]

## 1.2 MARKET OVERVIEW

The Australian banking sector is regulated by the Australian Prudential Regulation Authority (APRA) and counts 14 Australian privately owned banks listed on the Australian Securities Exchange (ASX)<sup>5</sup>. CBA is one of the four largest banks, also referred to as the “Big Four”, together with the Australia and New Zealand Banking Group (ANZ), the National Australia Bank (NAB), and Westpac Banking Corporation (WBC). Those banks have an international presence and are considered to be among the most profitable banks in the world<sup>6</sup>.

Despite the changing competitive and regulatory environment to which they are constantly exposed to, those four banks achieved a very positive combined result of AUS \$30.9 billion in FY2015, registering an increase of AUS \$2.1 billion if compared to the previous financial year<sup>7</sup>. In addition, they contributed to make the Australian share-market one of the leading sectors in the Australia Securities Exchange - ASX 200 Index. In fact, they represent the first four financial services providers in Australia in terms of market capitalisation, including (#1) CBA with AUS \$133 billion, (#2) WBC with AUS \$99 billion, (#3) ANZ with AUS \$72 billion and (#4) NAB with AUS \$71 billion at share price calculated on May 24<sup>th</sup> 2016<sup>8</sup>. Due to the extensive combined value that those banks disclose, the “Four Pillars” policy adopted by the Australian Government in 1990 forbids any mergers among them to preserve market competition<sup>9</sup>.

There are also other five Australian-owned banks, St George, Bendigo and Adelaide Bank, BOQ, ME Banks and Suncorp Bank, that mainly offer retail banking products and services

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5 Financial Stability Review. 2006. The Structure of the Australian Financial System, Reserve Bank of Australia, <http://www.rba.gov.au/publications/fsr/2006/mar/overview.html> [Retrieved April 25, 2016]

6 Gable, Michael. 2015. Where to for the big four? Investment and Finance Newsletter. ASX. <http://www.asx.com.au/education/investor-update-newsletter/201508-where-to-for-the-big-four.htm> [Retrieved June 2, 2016]

7 KPMG. 2015. Major Australian Banks: Full Year 2015 Results Analysis. Performance Summary. KPMG, <https://assets.kpmg.com/content/dam/kpmg/pdf/2015/12/major-australian-banks-full-year-results-2015.pdf> [Retrieved June 3, 2016]

8 Australian Securities Exchange. 2016. ASX 200 List. Australian Security Exchange, <http://www.asx200list.com> [Retrieved on June 10, 2016]

9 Financial System Inquiry. 1997. Mergers Policy in the Financial System. Reserve Bank of Australia, <http://fsi.treasury.gov.au/content/PublicInformation/Pressreleases/PR090497.asp> [Retrieved April 25, 2016]

within regional areas<sup>10</sup>. Even though they have been trying to attract customers resident in other regional areas in the last years, they still only account for 8 per cent of the total bank assets, with St George Bank being the largest one<sup>11</sup>.

Moreover, the increased degree of liberalisation promoted by the Australian Government in 1992 incentivized foreign-owned banks such as ING, HSBC and HBOS to enter the Australian market. Today, there are 48 foreign-owned banks in Australia, 39 of which are branches and 9 are subsidiaries. Nevertheless, they only account for 12 per cent of the total bank assets<sup>12</sup>.

### 1.3 CURRENT CLIENT SITUATION

CBA is exposed to a constantly evolving economic as well regulatory environment. Recently, the Australian economy had to face several challenges due to the slowdown in the rate of growth of the Chinese economy, which significantly affected the Mining Industry, one of the most profitable businesses in the Australian market (7 per cent of Australia's GDP 2015)<sup>13</sup>. Moreover, the last Financial System Inquiry<sup>14</sup> (2014) requested the major domestic banks to operate a capital increase for competition purposes.

Despite the numerous challenges, the CBA Group was able to adapt to the numerous changes that the Australian as well as international business environment was presenting, and achieve strong financial results for the FY2015. More specifically, the Group raised a capital of AUS \$5 billion to fulfil the new regulation requirements and was ranked among the top-performing banks in the Australian market<sup>15</sup>. This is evident when looking at the Group Performance

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10 Regional Banks' Submission to the Financial System Inquiry. 2014. Levelling the Playing Field, [http://fsi.gov.au/files/2014/04/Regional\\_Banks.pdf](http://fsi.gov.au/files/2014/04/Regional_Banks.pdf) [Retrieved April 20, 2016]

11 Financial Stability Review. 2006. The Structure of the Australian Financial System, Reserve Bank of Australia, <http://www.rba.gov.au/publications/fsr/2006/mar/overview.html> [Retrieved April 25, 2016]

12 Reserve Bank of Australia. 2012. Box A. Foreign-owned Bank Activity in Australia. Reserve Bank of Australia, <http://www.rba.gov.au/publications/fsr/2012/mar/box-a.html> [Retrieved June 3, 2016]

13 Australian Government. 2015. Australian Industry Report. Australian Government, <http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/AIR2015.pdf> [Retrieved June 10, 2016]

14 Financial System Inquiry. 2014. Final Report 2014. Financial System Inquiry, [http://fsi.gov.au/files/2014/12/FSI\\_Final\\_Report\\_Consolidated20141210.pdf](http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf) [Retrieved June 3, 2016]

15 Commonwealth Bank of Australia. 2015. Annual Report 2015. Chairman's Statement. Commonwealth Bank of Australia, <http://www.republicast.com/publications/cbaar2015/> [Retrieved April 12, 2016]

Highlights for the FY2015, as shown in **Exhibit 1**. The results show an increase of 5 per cent of the Net Profit After Tax (AUS \$9,063), a Return on Equity of 18.2 per cent, a Return on Assets of 1.1 per cent, and Earnings per Share of 557.0 cents, registering an increase of 4 per cent on the previous financial year. Moreover, the Group maintains credit ratings within the AA category.

CBA's strong financial achievements rely on its solid corporate strategy, which embodies four key strategic priorities: "people, productivity, technology and strength"<sup>16</sup>; and considerably focus on building a solid domestic as well as international network. The Group, in fact, has rapidly grown its domestic presence by owning the largest distribution network in Australia with over 1,100 national branches, 4,300 ATMs and 200,000 EFTPOS terminals. The Group also claims an extensive international network with branches in New Zealand, Asia, Europe and North America.

#### 1.4 THE BUSINESS PROJECT CHALLENGE

In a business context that is becoming more complex and volatile than ever organisations struggle to understand human behaviour. Studies have shown that individuals are not the perfect rational agents that the traditional economic models imply. In fact, they are rather irrational and emotionally self-reliant. In this regard Behavioural Economics offers unprecedented strategic opportunities, as it provides organisations with the tools to map the decision-journey and understand customer behaviour. To embrace this contingency, CBA should explore the benefits that the application of Behavioural Economics entails and find a way to successfully implement it within its operations. The CEMS Business Project challenge was focused on providing CBA with an understanding of the current trends in Behavioural Economics and their possible use in the business world. This included specific definitions of the challenges, opportunities and ethical as well as regulatory constraints that could derive

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<sup>16</sup> Commonwealth Bank of Australia. 2015. Annual Report 2015. CEO's Statement. Commonwealth Bank of Australia. <http://www.republicast.com/publications/cbaar2015/> [Retrieved April 12, 2016]

from the operationalization of such practices. In summary, the project goal was to outline and provide the Executive Committee of CBA with an overview on the potential implementation of a Behavioural Economics Unit within the organisation.

## 2. REFLECTION ON THE WORK DONE AND INDIVIDUAL CONTRIBUTION

### 2.1 PROBLEM DEFINITION

For years the potential of Behavioural Economics has been widely supported and promoted by the Academia. Governments were the first to understand the benefits of the application of Behavioural Economics and to successfully introduce its principles into their policies. However, the potential of Behavioural Economics in the private sector is still widely untapped, and the implementation of such practices into their operations has been slow. The main reason has been the evident lack of knowledge on how to operationalize Behavioural Economics within the private sector, without failing to obey to ethical as well as regulatory requirements. Being the capabilities still concentrated within the Academia, the benefits of being an early adopter remain unknown for CBA. To repair this absence of expertise and profit from the opportunities arising from the implementation of Behavioural Economics, a concrete plan of action is to be conceptualized for the Group.

### 2.2 METHODOLOGY

#### 2.2.1 HYPOTHESIS

Any hypothesis were formulated with CBA, however, on the basis of both the business project challenge and the problem definition, it is possible to hypothesize the following:

**Hypothesis 1:** “The operationalization of Behavioural Economics Theories will enable an organisation to capitalize on the customers and achieve a sustainable competitive advantage.”

**Hypothesis 2:** “A culture of experimentation will be imperative to ensure a successful implementation of the Behavioural Economics practices within an organisation.”



***Hypothesis 3:*** “Ethical principles for the use of Behavioural Economics will be necessary to safeguard the integrity of an organisation and ensure ethical compliance of all related activities.”

It is to point out that, as the research project is still on going, the efficacy of those hypotheses has not been fully demonstrated.

### 2.2.2 METHODOLOGY

Since the purpose of the business project was to gain a holistic understanding of the application and potential operationalization of Behavioural Economics within the private sector, an empirical as well as analytical approach was found to be the most appropriate.

To answer the first hypothesis, a qualitative research was conducted. Being this initial phase crucial for the entire project’s success, a variety of internal as well as external sources were accessed. More specifically, academic papers from accredited Behavioural Economics experts were examined, including Prof. Cass R. Sunstein (US), Prof. Richard H. Thaler (UK), and Prof. Dilip Soman (Canada) as the most notable examples. In addition, studies from the UK Behavioural Insights Team (BIT), the USA White House and Social Behavioural Sciences Team and the Australian Department of Prime Minister and Cabinet were researched to assess the current application of the Behavioural Economics practices within the public sector; while reports from HSBC and Barclays Allianz (Save More Tomorrow<sup>TM</sup> Program) were used to examine early adopters moves within the private sector.

The second hypothesis was investigated by integrating the secondary data collected during the first stage of the research with internal documentation provided by CBA. A case study was then developed to assess whether a culture of experimentation is necessary when implementing Behavioural Economics practices within an organisation. A matrix of the type ‘Impact-Effort’ was designed to show the findings.

To evaluate the third and last hypothesis, academic literature (e. g. Prof. Cass R. Sunstein), Behavioural Economics consulting firms' reports (e.g. BEworks) and several business articles on how to ensure an ethical application of Behavioural Economics in a business environment were researched. Ultimately, a strategic management framework was provided by CBA to formulate the final recommendations and redact a final version of the business report.

### 2.2.3 ANALYSIS

At a second stage, the data collected were selected and analysed through a continuous reiteration with George Robinson and Mohil Asija, members of the CBA Corporate Strategy Team, and William Mailer, the CBA Behavioural Economics subject matter expert.

The background research showed that Behavioural Economics emerged as a science only at the beginning of the 21<sup>st</sup> century, when a team of Princeton psychologists led by Daniel Kahneman and Amos Tversky started to investigate the relationship between human decision-making and rational behaviour economic theories<sup>17</sup>.

Before then, public and private organisations had solely relied on traditional economic models, driven by the belief that individuals are calculative, cognitive intelligent and self-interested “rational agents”. Intrigued by the introduction of social psychology into the study of human behaviour, other internationally recognized scholars started to prove that individuals were “boundedly rational”<sup>18</sup>, and that the assumptions promoted by the traditional models were therefore heavily erroneous.

It was in this context that Prof. Cass R. Sunstein and Prof. Richard H. Thaler published their bestselling book *Nudge* (2008), introducing *Nudging*, the most successful application of Behavioural Economics. This novel and revolutionary concept contributed to overcome the traditional notion of the perfect “rational agent”, and to shift the way organisations perceived

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<sup>17</sup> BEworks. 2015. An Introduction to BE. BEworks. <http://beworks.com/wp-content/uploads/2015/02/An-Intoduction-to-BE.pdf> [Retrieved April 20, 2016]

<sup>18</sup> Kahneman, Daniel, and Amos Tversky, A. 1979. Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47(2), 263-291.

customer behaviour. As claimed by Thaler and Sunstein (2008)<sup>19</sup>, in fact, the introduction of nudges, also referred to as *choice architectures*, could aid in overcoming the present bias cognitive limitations and improving the overall decision-making process. Essentially, by simply changing the way options are presented, organisations can motivate individuals to make the right choices and eventually achieve the desired results. Governments were the first to recognize the potential of Behavioural Economics and to introduce it into their policies as a cost-effective, step-changing and soft-handed way to “achieve ‘downstream’ social gains” and reach positive behavioural change<sup>20</sup>. The UK Government, for instance, successfully used Behavioural Economics practices to find prudent and cost-effective techniques to face the financial crisis that affected the Eurozone in 2008. More specifically, the Behavioural Insights Team of the UK Government (BIT) managed to use a soft approach to increase tax payments by 15 per cent, by simply communicating that most people in the recipient’s community pay taxes on time<sup>21</sup>. Another example is when the UK Government applied Behavioural Economics practices to encourage organ donation, reaching more than 100’000 extra registrations only by implementing small changes to the official website<sup>22</sup>. Other success stories come from the National Audit Office in the UK, which fortunately used Behavioural Economics to dramatically increase enrolment to pension funds<sup>23</sup>; and the Department of Education in the US, which increased the number of application for income-driven repayment plans with a single email campaign<sup>24</sup> (**Exhibit 2**). Today, more than fifty governments have

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19 Thaler, Richard. H. and Cass R. Sunstein. 2008. *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press.

20 Shafique, Atif. 2012. Has the department of health been misusing behavioural economics? Royal Society for the Encouragement of Arts, Manufactures and Commerce, <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2012/03/has-the-department-of-health-been-misusing-behavioural-economics> [Retrieved June 3, 2016]

21 Cabinet Office Behavioural Insights Team. 2012. Applying behavioural insights to reduce fraud, error and debt. Cabinet Office. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/60539/BIT\\_FraudErrorDebt\\_accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/60539/BIT_FraudErrorDebt_accessible.pdf) [Retrieved April 10, 2016]

22 Cabinet Office Behavioural Insights Team. 2013. Applying Behavioural Insights to Organ Donation: Preliminary Results from a randomised controlled trial. Cabinet Office. <http://www.behaviouralinsights.co.uk/publications/applying-behavioural-insights-to-organ-donation/> [Retrieved June 5, 2016]

23 Cabinet Office Behavioural Insights Team. 2015. Automatic Enrolment and Pensions: A Behavioural Success Story. Cabinet Office. <http://www.behaviouralinsights.co.uk/trial-results/automatic-enrolment-and-pensions-a-behavioural-success-story/> [Retrieved June 5, 2016]

24 Executive Office of the United States. 2015. Social and Behavioural Sciences Team. Annual Report, Executive Office of The United States, [http://www.ideas42.org/wp-content/uploads/2015/09/sbst\\_2015\\_annual\\_report\\_final\\_9\\_14\\_15.pdf](http://www.ideas42.org/wp-content/uploads/2015/09/sbst_2015_annual_report_final_9_14_15.pdf) [Retrieved April 25, 2016]

installed an internal Nudge Unit, including Germany, Australia, Denmark, Sweden, Canada, Singapore, South Korea and Mexico as shown in **Exhibit 3**.

In the private sector, however, the adoption rate has been much slower. In fact, “many business leaders have studied traditional economics theories and continue to believe that consumers always act rationally”<sup>25</sup>, which explain the general lack of expertise in how to put Behavioural Economics into action. Only few organisations, in fact, have understood how revolutionary and extremely promising the implementation of such practices could be. HSBC, for instance, introduced a Mobile App called “*Nudge*”<sup>26</sup> (2016) in collaboration with the London School of Business Economics to help its customers improve their spending habits. Due to its early promising results, the pilot test will be re-run on a larger scale later this year. Barclays, instead, used a “Behavioural Finance Approach” to introduce a wide range of highly customized financial solutions, delivering superior experiences to its customers<sup>27</sup> (**Exhibit 4**). A study conducted by Gallup quantifies the success of those early adopters. It has proven, in fact, that “companies that apply the principles of Behavioural Economics outperform their peers by 85 per cent in sales growth and more than 25 per cent in gross margin”, achieving a sustainable advantage vis-à-vis their competitors<sup>28</sup>. Other private organisations such as Google, Facebook, Amazon and Unilever are now contemplating the idea of introducing Behavioural Economics into their operations (**Exhibit 5**). Those successful stories show that Behavioural Economics is an opportunity that cannot be missed, and contribute to verify the first hypothesis. However, the process of operationalization still constitutes an insurmountable obstacle for most organisations.

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25 Sherman, Michael. (2016). Canadian business jumping on the behavioural economics bandwagon. TheGlobal and Mail, <http://www.theglobeandmail.com/report-on-business/rob-commentary/canadian-business-jumping-on-the-behavioural-economics-bandwagon/article28747073/> [Retrieved June 3, 2016]

26 Computing. 2016. HSBC launches ‘Nudge Theory’ Banking App to Help Customers Manage Finances. Computing, <http://www.computing.co.uk/ctg/news/2442357/hsbc-launches-nudge-theory-banking-app-to-help-customers-manage-finances> [Retrieved April 15, 2016]

27 Erskine, James. 2012. Barclays Wealth’s Martin Cuthbert uses Behavioural Finance Approach. Citywire, <http://citywire.co.uk/wealth-manager/news/barclays-wealth-s-martin-cuthbert-uses-behavioural-finance-approach/a567191> [Retrieved June 15, 2016]

28 Fleming, John H. and James K. Harter. 2013. The Next Discipline: Applying Behavioural Economics to Drive Growth and Profitability. Gallup, <http://www.gallup.com/services/178028/next-discipline-pdf.aspx> [Retrieved April 10, 2016]

While there is a relative common agreement about the substantial economics gains of Behavioural Economics for the private sector, there is no consensus over the right way to operationalize it. Researchers suggest two possible approaches: the traditional “Carrot and Stick Approach” and the “Nudging Approach”<sup>29</sup>. While the first one would not be beneficial for an organisation as it is incentive-based and capital-intense; the second one requires changes in the “physical and social environments”<sup>30</sup> and would be, therefore, not easy to implement. In fact, nudges are highly dependent on the circumstances and might be very arduous to anticipate<sup>31</sup>.

For the Behavioural Insights Team of the UK Government, this discrepancy is only apparent. To move forward, organisations should go beyond the traditional “Carrot and Stick Approach” and incorporate an inexpensive “Nudging Approach” within a culture of experimentation. Being the application of Behavioural Economics Theories highly contextual, in fact, only by introducing a “*Test, Learn and Adopt Approach*” organisations can learn which practices are more suitable for their business context<sup>32</sup>. In order to successfully endorse this approach, organisations have to build a culture where failure is not considered a deficiency, but rather an encouragement to succeed. In the light of those findings, the second hypothesis can be considered verified.

To date, it has been proved that Behavioural Economics offers endless opportunities for the private sector. Nevertheless, an organisation should be aware of the constraints and ethical implications that the operationalization process entails.

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29 Thaler, Richard. H. and Cass R. Sunstein. 2008. *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press.

30 BEworks. 2015. An Introduction to BE. BEworks. <http://beworks.com/wp-content/uploads/2015/02/An-Introduction-to-BE.pdf> [Retrieved April 20, 2016]

31 Wheatley, Martin .2014. Making competition king: the rise of behavioural economics at the FCA. Financial Conduct Authority. <http://www.fca.org.uk/news/making-competition-king> [Retrieved April 8, 2016]

32 Cabinet Office Behavioural Insights Team. 2012. Applying behavioural insights to reduce fraud, error and debt. Cabinet Office. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/60539/BIT\\_FraudErrorDebt\\_accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/60539/BIT_FraudErrorDebt_accessible.pdf) [Retrieved April 10, 2016]

Nudges, for instance, are commonly employed and widely supported by the general public; however, exploitative practices are still considered to be a current and widespread social fear. Individuals, in fact, show extensive concerns over the manipulation of their cognitive and subconscious processes, and distrust organisations that attempt to interfere with their freedom of choice<sup>33</sup>. Research has, however, shown that individuals are incline to accept more explicit and transparent nudges, which do not manoeuvre their conscious, offend their personal dignity or humiliate their self-respect.

As nudges are inevitable in a business context<sup>34</sup>, organisations should therefore learn how to efficiently use Behavioural Economics practices to serve their customers' interests while maintaining a solid ethical conduct. Hence, the utilisation of nudges and choice of architecture are to be subject to transparency to preserve the integrity of the organisation and avoid damages to the brand. Along with transparency, private organisations should also distinguish between *customer eligibility* and *suitability*, and use any attained information to tailor individual solutions, rather than to cluster individuals into generalised categories. The key to overcome the ethical constraints in the private sector should, therefore, be a focus on transparent customisation, rather than secret generalisation. In summary, an ethical application of the Behavioural Economics practices should be ensured at all time. This could be achieved by simply putting the customers' best interests at the centre of all practices. Hence, also the third and last hypothesis has been proved.

### 2.3 RECOMMENDATIONS TO THE COMPANY

As stated in the business project challenge, the main purpose of the project was to provide an overview of the current application of Behavioural Economics, through a clear identification of the challenges as well as the commercial and societal opportunities that it presents. A

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33 Sunstein, Cass. R. 2015a. Nudging and Choice Architecture: Ethical Considerations. Harvard Law School, <http://ssrn.com/abstract=2551264> [Retrieved April 8, 2016]

34 Sunstein, Cass. R. 2015b. Do People Like Nudges? Harvard Law School, <http://nrs.harvard.edu/urn-3:HUL.InstRepos:16147874> [Retrieved April 8, 2016]

recommended approach was therefore designed to invite the Executive Committee of CBA to note the benefits and recognize the potential uses of Behavioural Economics for the Group. A four stage-approach was used to first highlight the value, then identify the actors and facilitators involved while establishing a concrete approach for operationalization, and finally suggest immediate next steps.

**1. Why: Value** - As of today, the value of Behavioural Economics has been mainly recognized in the public sector. However, it is slowly making its way into the boardroom of private organisations due to the extensive benefits it supplies. In the Financial Services Industry, the employment of Behavioural Economics grants a gentle, yet effective and cost-efficient approach that boosts “customer satisfaction, employee productivity, organisational growth and profitability”<sup>35</sup>.

Precisely, by gaining a greater understanding of the human behaviour, CBA will be able to offer more personalised financial solutions that directly speak to the customers’ needs. Save More Tomorrow<sup>TM</sup>, a Behavioural Financial Program conceived in the US by Prof. Richard H. Thaler, is a notable example of how the implementation of Behavioural Economics contributed to increase retirement savings rates by almost 400 per cent in just three and a half years<sup>36</sup>.

Behavioural Economics could also serve as a correcting mechanism to fight the misconduct issues that systematically arise in the banking sector. Throughout a more transparent approach towards inaction, mis-selling and customer error, Behavioural Economics will contribute to increase not only the overall customer perception of the CBA brand, but also the level of public confidence in the entire financial system. In the last seven years, in fact, twenty of the

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35 BEworks. 2015. An Introduction to BE. BEworks. [http://beworks.com/wp-](http://beworks.com/wp-content/uploads/2015/02/An-Introduction-to-BE.pdf)  
[Retrieved April 20, 2016]

[content/uploads/2015/02/An-Introduction-to-BE.pdf](http://beworks.com/wp-content/uploads/2015/02/An-Introduction-to-BE.pdf)

36 Allianz Global Investors. 2016. Save More Tomorrow. Allianz Global Investors, Center for Behavioral Finance. <http://befi.allianzgi.com/en/Topics/Pages/save-more-tomorrow.aspx> [Retrieved May 10, 2016].

largest global banks have paid more than \$235 billion in fines for misconduct<sup>37</sup>. An effective use of Behavioural Economics could have saved them for such onerous punishment.

**2. Who: Actors & Facilitators** - As the operationalization process will have an extensive impact on the overall organisation, a step-by-step recommended guide will be provided to facilitate the interaction among the actors and facilitators involved:

**a. Obtain Management Buy-In** as a corporate action is needed for CBA to acknowledge the benefits of Behavioural Economics from the top, make a call for change and initiate the process of implementation within the organisation.

**b. Hire a Subject Matter Expert** that owns the capabilities and knows how to unlock the potential of Behavioural Economics for the Group, responsible for constantly updating the top management team on novel innovative applications.

**c. Build a Behavioural Economics Team** that cooperates with the subject matter expert in the creation of Behavioural Economics strategies tailored to CBA, relying on existent successful stories from the public sector.

**d. Seek External Partnerships** with institutions that have already experienced the benefits of Behavioural Economics and are willing to share their expertise and best practices.

**e. Appoint a Chief Behavioural Economics Officer (CBO)** who is the person in charge of administrating the whole implementation process. He owns a senior role if compared to the Subject Matter Expert, as he possess the authority as well as the responsibility of allocating the capabilities within the organisation and assigning predefined roles for the Group. His position involves high-level decision about methods and strategies adopted.

**3. How: Approach for Operationalization** - Once the value for the organisation has been assessed and all the agents and facilitators involved, a punctual approach for operationalization should be formulated to build pilot projects for CBA.

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37 Dzimwasha, Taku. 2015. 20 Global banks have paid \$235bn in Fines since the 2008 financial crisis. International Business Times. <http://www.ibtimes.co.uk/20-global-banks-have-paid-235bn-fines-since-2008-financial-crisis-1502794> [Retrieved April 10, 2016]



- a. **Define the Organisational Value of Behavioural Economics** as a first step, to therefore measure the benefits that may be gained from the implementation of such practices. It should be perceived as an evaluation from the inside of the Group, rather than an artificial response to external stimuli.
- b. **Set Ethical Principles for Behavioural Economics** to effectively prevent misconduct by all means and mitigate the Group's risks to inaction, mis-selling and customer error. The main purpose is to preserve the reputation of the Group by promptly identifying and detecting potential internal and external threats to the CBA brand, vision and core values.
- c. **Diagnose and Target the Potential of Behavioural Economics** as a mean to select and diagnose the latent fields of employment for Behavioural Economics, classified by priority of intervention. An '*Impact-Effort*' Matrix could be used to display the results. The axes of the matrix should be established on the base of the impact that the matrix is trying to measure (e.g. Impact on the Business) as well as the effect that it is willing to provide (Ease of implementation). In the case displayed in **Exhibit 6**, the matrix was used to develop a case study, which included the launch of a new product for CBA following the principles of Behavioural Economics: "*RetireWise*", a cumulative retirement fund built on small regular on monthly salary savings. The approached used was the following: (1) *Analysis of the Current Setting and the Present Bias*; (2) *Identification of the Argument*; (3) *Provision of a Solution, including an Estimated Value Proposition*. The Impact-Effort Matrix helped to understand to what extent the customer behaviour changes and influences the business; and what are the required resources to implement changes in the product/process. An estimated value proposition for *RetireWise* is presented in **Exhibit 7**.
- d. **Design Applicable Solutions** that are also 'Easy, Attractive, Social and Timely' (EAST Framework) through the use of disruptive technologies and machine learning.

**e. Test, Assess, Learn and Adapt Pilot Projects** to assess the efficacy of the pilot project through (1) *Direct observations*, (2) *Informant Methods* and (3) *Functional Analysis*.

**f. Educate Behavioural Economics Stakeholders** to create a culture and spread the knowledge throughout the entire organisation.

**g. Deliver the Finalised Solution** consisting of the most fruitful pilot applied on larger scale.

**4. Accountabilities & Immediate Next Steps** - The first CBA Behavioural Economics Unit will be composed by George Robinson and Mohil Asija, members of the Corporate Strategy Team, and William Mailer, the CBA Behavioural Economics Subject Matter Expert. The team will be responsible to recognize and underline the benefits that CBA could derive from the introduction of Behavioural Economics practices and guide the entire organisation to create a sustainable competitive advantage for the Group.

## 2.4 CONCERNS

The recommended approach was designed to help the Executive Committee of CBA visualize the value of Behavioural Economics for the Group, and identify a set of actions to build a Behavioural Economics Unit within the organisation. As the operationalization process will require an extensive employment of internal and external resources, it is crucial to ensure the initial engagement of the top management team<sup>38</sup>. Nevertheless, obtain management buy-in is one of the most challenging steps to achieve. In most cases, in fact, project failure can be tied directly to a lack of management support, which is likely to happen when the value of the project has not been clearly outlined, or the proposed change of strategy is not perceived to meet the overall business goals<sup>39</sup>.

The strategic direction might not find the Behavioural Economics practices relevant to CBA, not perceiving a need for a change in the organisation. In addition, a lack of credibility might

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38 Ashford, Susan J. and James R. Detert. 2015. Managing Up. Get the Boss to Buy In. HarvardBusiness Review. January-February 2015 Issue.

39 Fortune, Joyce and Diana White. 2006. Framing of project critical success factors by a systems model, International Journal of Project Management, Vol. 24 No. 1, pp. 53-65 [Retrieved June 3, 2016]

derive from the fact that only few private organisations have partially integrated Behavioural Economics in their operations<sup>40</sup>, and the best practices from the public sector might not be directly applied to the financial systems business context.

Furthermore, managers may argue that the introduction of nudges is not necessarily as effective as many behavioural economists claim. In fact, Behavioural Economics is a soft-handed approach and leads to small changes in customers' behaviour only in the long-term<sup>41</sup>. On this matter, Prof. Gerd Gigerenzer, one of the biggest critics of Behavioural Economics, argues that decisions made with the help of heuristics are not necessary more accurate than those based on rational models<sup>42</sup>. CBA managers' scepticism might also derive from the potential ethical issues that the introduction of such practices implies in the financial sector, affecting the overall customer perception of the brand. A further concern arises from the execution of the implementation plan, as it might be hard to find internal capabilities and external partnerships to support the Subject Matter Expert and the CBO.

All in all, the Executive Committee should be aware that those challenges exist and that, to ensure more successful outcomes, a solid support is required not only from the highest level of management, but also from the entire organisation.

## 2.5 INDIVIDUAL CONTRIBUTION

Throughout the entire business project experience, I acted as a group leader and moderator, being naturally predisposed to encourage communication and facilitate interaction among people. Together with my group I decided to adopt a rigorous, yet collaborative approach. The key was to have a regular contact with the client, as well as with the mentor and the

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40 Sherman, Michael. (2016). Canadian business jumping on the behavioural economics bandwagon. The Global and Mail, <http://www.theglobeandmail.com/report-on-business/rob-commentary/canadian-business-jumping-on-the-behavioural-economics-bandwagon/article28747073/> [Retrieved June 3, 2016]

41 Thaler, Richard. H. and Cass R. Sunstein. 2008. Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press.

42 Gigerenzer, Gerd and Daniel G. Goldstein. 1996. Reasoning the Fast and Frugal Way: Models of Bounded Rationality. Psychological Review. Vol. 103, No. 4, 650-669.

academic advisor. During each meeting, I was in charge of preparing the agenda, and assign clear roles to each group member (e.g. take notes, record the call, prepare slides etc.).

During the first stage of the project together with another member of my group I redacted a scoping document, including the project opportunity statement, the client's expectations, and the final objectives and deliverables. Once the scope was validated by the client and the academic advisor, I defined the project timeline together with my group. I suggested dividing the project into five main stages, organised on a clear and defined time frame, as shown in the *Project Timeline (Exhibit 8)*. This approach helped the group to clearly identify the key milestones of the project and to successfully respect all the internal deadlines.

At a second stage, the tasks were allocated within the group and each member was assigned with a specific area of expertise. I was required to perform a research on the existent Behavioural Economics practices in the public sector. This research phase was heavily based upon an extensive secondary data analysis and was crucial to identify the objectives of the project. The findings significantly shaped the vision that the client initially had of the project. As a consequence, the group had to redefine the overall scope of the project and re-assign tasks.

It became clear after this first meeting that the client had set very high expectations for the project and relied on our results to obtain management buy-in. The pressure that originated from this discovery inevitably affected the internal group dynamics. Hence, as nobody in the group felt comfortable with the challenge, some initial tensions emerged. I immediately decided to tackle this problem by equally re-dividing the project research in five main parts and developing a strategy to increase the overall group's level of engagement. A critical element of this approach was that each member of the group was not only a "subject expert" for a specific area of the project, but also a "subject checker" for a part assigned to another group member. As the group members were continuously helping and supporting each other,

this method became key to ensure a peaceful, yet effective collaboration within the group. Specifically, I was responsible for proofreading the analysis related to the ethical constraints that Behavioural Economics entails in a business context.

Thanks to this new approach, I was able to create an environment that encouraged personal learning, while stimulating and challenging the group's ability to plan, research and make decisions. As a group, in fact, we became able to regularly meet the clients' deadlines and to deliver the work in an efficient and prompt manner. This novel organisation of the group, as well as the clear and efficient initial planning paid off all the efforts when we received an extremely positive feedback from the client.

At a third stage, with the help of another group member I tried to combine the individual research into a first draft of the research report, and encourage the group to start defining an approach for the final project recommendations. Having already contributed to a similar project in the past, I provided the group with some valuable insights, which resulted to be useful for the final client-group interaction. Since this was an extremely important part of the project, I suggested largely discussing and developing together several potential scenarios. Through a collaborative and continuous reiteration with the client, we came up with the structure and the content of the final business report and presentation. My task at this point was to underline the value of Behavioural Economics for the Group and design a framework for a potential implementation within CBA.

All in all, I remained always very responsive to the group's requests and constantly encouraged every member of the group to participate and make the most out of the experience. The group valued my constant encouragement and support, as well as my honesty towards the group's limits and capabilities. The open and democratic dialogue that I contributed to create together with the group was truly beneficial for the overall success of the project.

### 3. ACADEMIC DISCUSSION

#### 3.1 POSSIBLE LINKS WITH MSC FIELD (MANAGEMENT)

The business project analysis contributed to explore the wide range of benefits that Behavioural Economics offers in the private sector. Specifically, the results show how the application of such practices enhance the overall perception of customer behaviour, help building choice architectures, and improve customers' decision outcomes<sup>43</sup>. Those findings have significant implications for the study of marketing in the financial services industry.

Several studies (i.e. Chuah & Devlin, 2011)<sup>44</sup>, in fact, have suggested leveraging on the remarkable contribution that Behavioural Economics provides in terms of understanding customer psychology and apply its principles to refine current marketing practices. To support those theories, an analysis on how to integrate Behavioural Economics to overcome customers' *Loss Aversion* within a financial organisation will be conducted.

#### 3.2 RELEVANT THEORIES AND EMPIRICAL STUDIES

Marketing theories often rely on traditional economics models, building on the concept that individuals always act in a rational and analytical manner<sup>45</sup>. Those assumptions derived from the “*Utility Maximization Paradigm*”, according to which individuals tend to choose the best alternative that maximizes their utility function<sup>46</sup>. Specifically, in the financial services industry marketing practices are usually based on “information-processing models”, believing that individuals are able to make rational financial decisions solely based on the information internally provided<sup>47</sup>. With the theorization of Behavioural Economics, however, the inaccuracy and inconsistency of those practices became evident, and the belief that

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43 Thaler, Richard. H. and Cass R. Sunstein. 2008. *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press.

44 Chuah, Swee-Hoon and James Devlin. 2011. Behavioural Economics and Financial Services Marketing: A Review. *International Journal of Bank Marketing*, 29(6)

45 Sherman, Michael. (2016). Canadian business jumping on the behavioural economics bandwagon. *The Global and Mail*, <http://www.theglobeandmail.com/report-on-business/rob-commentary/canadian-business-jumping-on-the-behavioural-economics-bandwagon/article28747073/> [Retrieved June 3, 2016]

46 Kahneman, Daniel, Peter P. Wakker and R Sarin. 1997. *Back to Bentham? Explorations of Experienced Utility*. Oxford University Press.

47 Chuah, Swee-Hoon and James Devlin. 2011. Behavioural Economics and Financial Services Marketing: A Review. *International Journal of Bank Marketing*, 29(6).

individuals were “perfect rational agents” started to be re-evaluated and largely disapproved<sup>48</sup>. Since then, an increasing number of academics and accredited researchers started to use Behavioural Economics principles to study human behaviour, and extend their application to diverse management practices<sup>49</sup>.

Among those, Prof. Swee H. Chuah and Prof. James Devlin at the University of Nottingham (UK) decided to investigate whether Behavioural Economics principles could be applied to marketing practices in financial services firms. In their paper “*Behavioural Economics and Financial Services Marketing: A Review*”<sup>50</sup>, Behavioural Economics theories are analysed and used to build an effective marketing solution to solve frequent behavioural problems in the financial sector. Their reasoning builds on the “*Prospect Theory*”<sup>51</sup> conceptualized by Prof. Amos Tversky and the Nobel Laureate in Economics Daniel Kahneman (1979), a model offered as a valid alternative to the “*Expected Utility Theory*” formalized by von Neumann and Morgenstern (1944). Moving away from the traditional utility function paradigm, the Prospect Theory demonstrates that in situations that involve risk individuals make decisions according to heuristics, and tend to focus on probable losses/gains rather than on final potential outcomes.

Prof. Swee H. Chuah and Prof. James Devlin based their analysis on the concept of “*Loss Aversion*”, one of the four heuristics identified by Kahneman and Tversky (1979)<sup>52</sup>. The Loss Aversion principle defines the individuals’ tendency to have a higher preference for avoiding losses rather than collecting gains<sup>53</sup>. As theorized in the Prospective Theory, in fact, the value function is concave for gains and convex for losses, where a neutral reference point is used to evaluate the individual’s potential gains and losses, as shown in **Exhibit 9**. Additionally, the

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48 Kahneman, Daniel, and Amos Tversky, A. 1979. Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47(2), 263-291.

49 Nord, Walter R. and Paul J. Peter. 1980. A behavior modification perspective on marketing. *Journal of Marketing*, 44, 36-47.

50 Chuah, Swee-Hoon and James Devlin. 2011. Behavioural Economics and Financial Services Marketing: A Review. *International Journal of Bank Marketing*, 29(6).

51 Kahneman, Daniel, and Amos Tversky, A. 1979. Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47(2), 263-291.

52 Kahneman, Daniel, and Amos Tversky, A. 1979. Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47(2), 263-291.

53 Thaler, Richard. H. and Cass R. Sunstein. 2008. *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press.

S-shape of the value function is explained by the fact that the marginal value decreases as the individual's losses and gains increase. More specifically, in the financial services sector the loss aversion phenomenon can be explained as the customers' hesitancy to invest in capital assets that integrate a certain degree of risk to capital, stock market based investments being an example<sup>54</sup>.

Even though individuals should not be stimulated to acquire risks that do not align with their general risk preferences<sup>55</sup>, a situation of under-exposure to risk might not be always beneficial. In fact, in the long run assets might display higher potential gains and a smaller degree of capital exposure to inflation. Investments in retirement funds, for instance, present a degree of risk that might result potentially profitable in the long-term. As suggested by Chuah and Devlin (2010)<sup>56</sup>, financial services organisations could overcome this issue by integrating Behavioural Economics principles into their marketing practices and implement default-options. In fact, as argued by Thaler & Sunstein<sup>57</sup> (2008) in cases of loss aversion individuals are more likely to choose the option designated as "*default*". It is, thus, crucial for financial organisations to always implement the most social desirable default settings and provide individuals with the possibility to opt-out.

Behavioural Economics can assist organisations in solving several known behavioural problems in four ways by: (1) *providing a wide range of information*, (2) *improving the decision environment*, (3) *super-visioning distribution requirements*, (4) *super-visioning*<sup>58</sup>. Financial institutions should, therefore, ensure customers are provided with transparent and complete information, and build a decision environment that clearly states what are the

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54 Furche, Andreas and David Johnstone. 2006. Evidence of the Endowment Effect in Stock Market Order Placement. *The Journal of Behavioural Finance*. Vol. 7, No. 3, 145-154

55 Chuah, Swee-Hoon and James Devlin. 2011. Behavioural Economics and Financial Services Marketing: A Review. *International Journal of Bank Marketing*, 29(6).

56 Chuah, Swee-Hoon and James Devlin. 2011. Behavioural Economics and Financial Services Marketing: A Review. *International Journal of Bank Marketing*, 29(6).

57 Thaler, Richard. H. and Cass R. Sunstein. 2008. *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press.

58 Erta, Kristine, Stefan Hunt, Zanna Iscenko and Will Bramble. 2013. Applying behavioural economic at the Financial Conduct Authority. Financial Conduct Authority, <http://www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-1> [Retrieved April 20, 2016]



underling risks and potential gains that an investment in retirement funds involves. As indicated by a research conducted by the National Bureau of Economic Research (2016), default options might have a significant impact on realised retirement savings outcomes in the long run<sup>59</sup>. Those findings are supported by an empirical study conducted by Beshears et al. (2006) in the U.S. that shows how default-options affect retirement savings outcomes at different phases of the plan savings cycle, including “savings plan participation, savings, rates, asset allocation, and post-retirement savings distributions”<sup>60</sup>.

The research also shows that the impact on retirement funds may vary depending on the type of default-options plan implemented. For instance, most of the time the participation to the savings plans in the U.S. entails a “standard enrolment”, requiring an effective engagement of the employee to opt-in. A less widespread alternative would involve an “automatic enrolment” plan that necessitates an action from the employee to opt-out.

According to Beshears et al. (2006), the major behavioural problems that customers face in retirement investments plans are three, including *(1) procrastination due to the complexity of the decision environment, (2) procrastination caused by present-bias inclination, and (3) belief that default options are sabotaging options*<sup>61</sup>.

Additionally, several governments have already implemented such practices and successfully encouraged individuals to invest in pension funds as well as carefully diversify their capital asset allocation, being the Swedish Government a notable example<sup>62</sup>.

All in all, this novel approach provides financial organisations with a compelling opportunity to rethink their traditional marketing strategies and improve market research. By formulating

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59 The National Bureau of Economic Research. 2016. The Effect of Default Options on Retirement Savings. The National Bureau of Economic Research, <http://www.nber.org/bah/summer06/w12009.html> [Retrieved April 10, 2016]

60 Beshears, John, James J. Choi, David Laibson and Brigitte C. Madrian. 2006. The Importance of Default Options for Retirement Savings Outcomes: Evidence from the United States. National Bureau of Economic Research, <http://www.nber.org/papers/w12009.pdf>. [Retrieved on June 10, 2016]

61 Beshears, John, James J. Choi, David Laibson and Brigitte C. Madrian. 2006. The Importance of Default Options for Retirement Savings Outcomes: Evidence from the United States. National Bureau of Economic Research, <http://www.nber.org/papers/w12009.pdf>. [Retrieved on June 10, 2016]

62 The National Bureau of Economic Research. 2016. The Effect of Default Options on Retirement Savings. The National Bureau of Economic Research, <http://www.nber.org/bah/summer06/w12009.html> [Retrieved April 10, 2016]

a clear and effective behavioural marketing model, in fact, financial organisations will be able to overcome the issues related to bounded rationality, solve several known behavioural problems and better engage with their customer-base.

### 3.3 IMPLICATIONS FOR THEORY AND FUTURE RESEARCH

It would be beneficial to extend the previous analysis to CBA and investigate the extent to which the implementation of Behavioural Economics principles might help to overcome loss aversion. Particularly of interest are the questions whether a change in the decision architecture will bring to an increase in the savings plan participation rate; the introduction of default-options of the type “automatic enrolment” will increase savings outcomes in the long run; the launch of behavioural-based marketing campaigns will impact on the customer-firm relationship, on the brand, and on the overall customer’s perception of the organisation.

## 4. PERSONAL REFLECTION

### 4.1 PERSONAL EXPERIENCE

When I first found out about the project assigned to my team, I was overwhelmed with different feelings. The topic did not fully match my academic background as a Master in Management student, nor fulfil my future professional aspirations as a Marketing Consultant. The fear of failure and of not meeting the client’s expectations was in plain contrast with the excitement showed at the beginning of the semester. As my group initially shared the same feelings, it was difficult to fully engage in the early stages of the project. However, the first meeting with the client helped me to establish a first contact with the topic and contributed to increase the overall group motivation. Being aware of this very first challenge, I decided to step outside of my comfort zone and face it together with my group.

#### 4.1.1 KEY STRENGTHS AND WEAKNESSES

Working with my group enabled me to develop excellent managerial and adaptation skills throughout the project. As the topic was initially not in my area of expertise, I tried to constantly challenge myself and the other members of my group to help and learn from each other. I tried to be sensitive to the group dynamics, and always leverage on the group's strengths. Recognizing the value of the in-group discussions, I extensively encouraged the group to progressively connect, trust on each other and exchange feedbacks. When I asked my group to evaluate my performance within the project, it emerged that they recognised my constant contribution, my honesty, my punctuality and work ethic. They also valued my open-minded attitude, as well as the continuous support and encouragement. They appreciated my role as an active speaker and vibe watcher during our group discussions. I also tried to communicate appropriately and promptly my feedbacks, and provided advice for the group's personal and professional improvement.

When I asked about my weaknesses, my group told me that I improved a lot since the beginning of the project. Despite some initial difficulties in terms of time-management, I learned how to prioritize tasks and organise efficiently and effectively my work.

#### 4.1.2 PLAN TO DEVELOP OF YOUR AREAS OF IMPROVEMENT

To deal with time pressure, deadlines and stress, I tried to follow the GTD – *Getting Things Done Method* conceived by David Allen. I started to carefully divide my work in smaller tasks and clearly organise my timetable. This new method helped me to focus on each step of the project and perform my tasks on time.

#### 4.2 BENEFIT OF HINDSIGHT

As of today, I can say that the completion of this project has not only extended my academic knowledge, but also contributed to my personal and professional growth. It was an extremely

intense, yet enriching experience and gave me the opportunity to continuously learn, improve and challenge myself.

I had the opportunity to work with very hardworking, creative, intelligent and sensitive people, who gave me constant support and valued my capabilities. I immensely appreciated the group-company interaction, the regular encouraging feedbacks and life advice. The fact that the clients saw the project as a learning opportunity not only for the group, but also for themselves was the most valuable lesson I could take from this experience.

Looking backward, this experience has made me realise that I should have managed better situations of stress and embraced immediately the challenge as a valuable opportunity for growth.

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## 6. APPENDIX

### Exhibit 1: CBA Group Performance Highlights

#### Group Performance Highlights



Work Project  
Commonwealth Bank of Australia

#### Group Performance Highlights

	Full Year Ended ("statutory basis")		Full Year Ended ("cash basis")			Half Year Ended ("cash basis")		
	Jun 15 vs		Jun 15 vs			Jun 15 vs		
	30 Jun 15	Jun 14 %	30 Jun 15	30 Jun 14	Jun 14 %	30 Jun 15	31 Dec 14	Dec 14 %
Net profit after tax (\$M)	9,063	5	9,137	8,680	5	4,514	4,623	(2)
Return on equity (%)	18.2	(50)bpts	18.2	18.7	(50)bpts	17.8	18.6	(80)bpts
Earnings per share - basic (cents)	557.0	4	560.8	535.9	5	276.7	284.1	(3)
Dividends per share (cents)	420	5	420	401	5	222	198	12

#### Credit Ratings

	Long-term	Short-term	Outlook
Fitch Ratings	AA-	F1+	Stable
Moody's Investors Service	Aa2	P-1	Stable
Standard & Poor's	AA-	A-1+	Stable

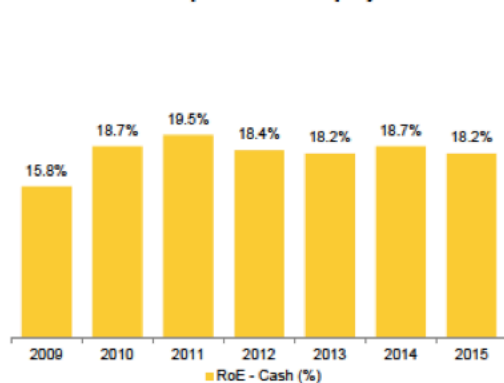


#### Group Performance Highlights

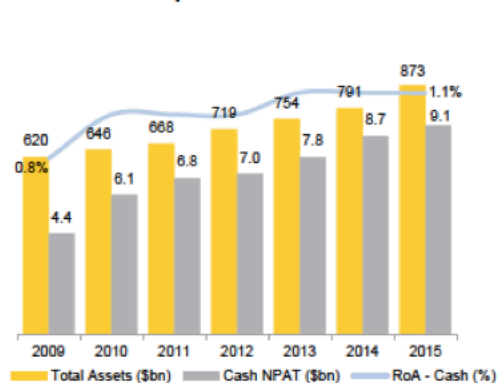


Work Project  
Commonwealth Bank of Australia

#### Group Return on Equity



#### Group Return on Assets



**Exhibit 2: Success Stories in the Public Sector**

**Success Stories in the Public Sector**

Work Project  
Commonwealth Bank of Australia

**Government Policies**

- **UK:** messages noting that most people in the recipient's community pay their taxes on time increased payment rates by 15%
- **UK:** messages that encouraged organ donation by an appeal to reciprocity led to an additional 100'000 donors per year
- **USA:** default to "opt-out" for retirement plans increased participation by over 100%

**Private Sector**

- **US Electricity Company:** electricity bills with a comparison to "your most efficient neighbour" reduced energy consumption by 2% to 4%
- **Italian Telecom Company:** changed wording increased the acceptance rate of an offer at intended cancellation
- **European National Railroad Company:** changed website layout to automatically include seat reservations (unless opted-out), resulted in increased annual revenues (\$40 Million)

Behavioural Economics in the Business World

CEMS

**Exhibit 3: Nudge Units around the World – Public Sector**

**Nudge Units around the World**

Work Project  
Commonwealth Bank of Australia

Canada: Policy Horizons Canada

USA: White House Social and Behavioural Sciences Team

Mexico: President's Office

Guatemala: Guatemala Tax Administration

Jamaica: Finance Ministry (UNDP/BIT)

Rio de Janeiro: Mayor's Office

World Bank: Development Report and Behavioural Trials

OECD: Behavioural Science

EU: Behavioural Science and Foresight Teams

Germany: Chancellor's Office

Norway: GreetNudge

Netherlands: Ministry of Economic Affairs & Ministry of Infrastructure and the Environment

Sweden: Swedish Nudging Network

Finland: Prime Minister's Office

Denmark: The Danish Nudging Network

Moldova: UNDP/BIT Collaboration

Singapore: Prime Minister's Office & Ministry of Manpower

Sydney: BIT Australia & Behavioural Insights Unit, NSW

Melbourne: Department of Premier and Cabinet, VIC

Australia: Department of Prime Minister and Cabinet, Canberra

Source: United Kingdom Behavioural Insights Team (BIT, 2015)

Behavioural Economics in the Business World

CEMS

**Exhibit 4:** Some Success Stories in the Private Sector

	HSBC	Barclays
<b>What?</b>	Mobile App " <b>Nudge</b> " (UK, 2016) in collaboration with the London School of Economics	" <b>Behavioural Finance Approach</b> "
<b>Why?</b>	<ul style="list-style-type: none"> <li>people sometimes struggle to achieve long-term goals</li> <li>the app encourages customers to make small regular financial decisions</li> <li>change long-term spending habits</li> </ul>	<ul style="list-style-type: none"> <li>help the bank understand how / where investors face the greatest headwinds to achieving financial goals</li> <li>offer a range of highly practical, and individually targeted advice</li> <li>make investors comfortable with their portfolios &amp; overcome investing mistakes</li> </ul>
<b>How?</b>	"Nudge" is currently piloted on 500 customers, but will be rolled out on a larger scale if successful	Barclays now offers highly tailored products, which created a whole new customer experience

**Exhibit 5:** Early Adopters in the Private Sector

## The Current Application of Behavioural Economics

CommonwealthBank



Source: Crawford Hollingworth in Marketing Society (2014)  
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Exhibit 6: The Impact-Effort Matrix for Prioritisation for *RetireWise*

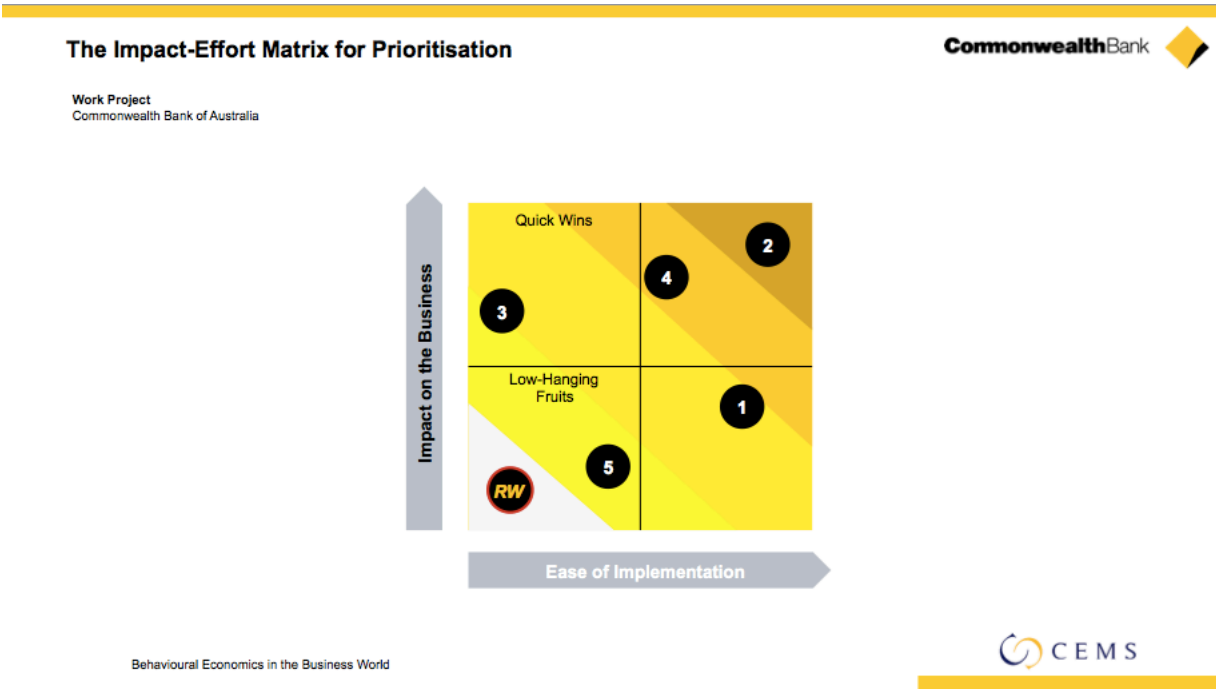


Exhibit 7: An Estimated Value Proposition for *RetireWise*

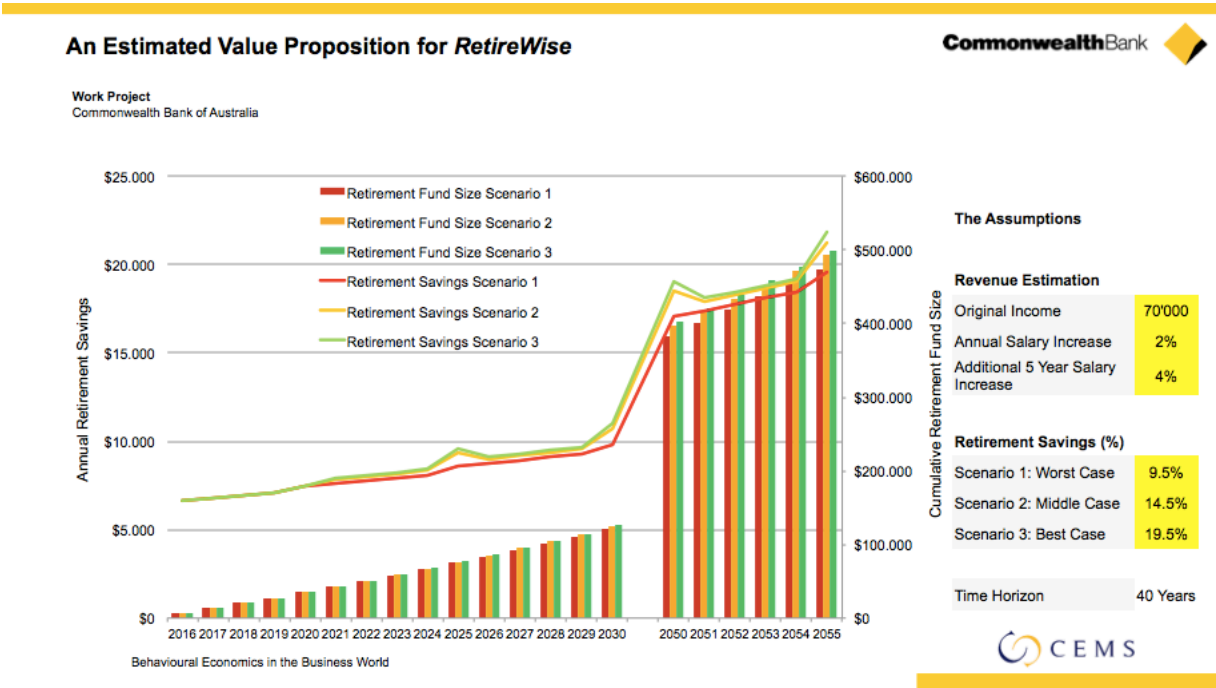


Exhibit 8: Project Timeline

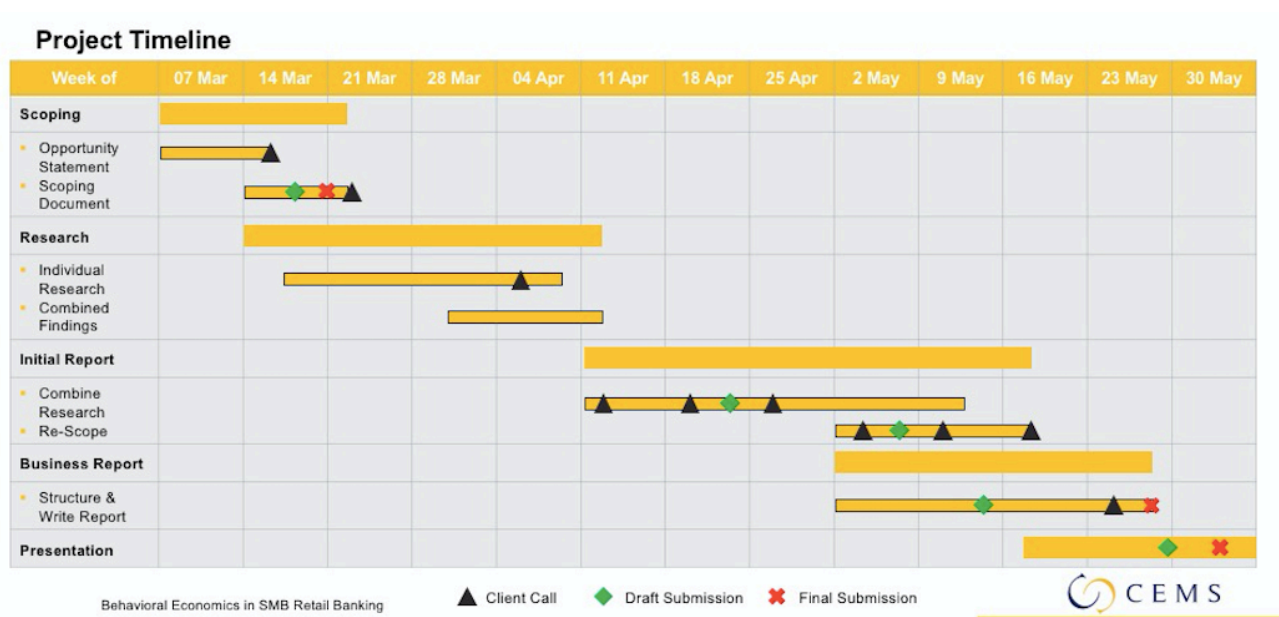


Exhibit 9: Loss Aversion: The Value Function

